



2015  
**WAREHOUSE MARKET  
REPORT**  
Moscow

## HIGHLIGHTS

The volume of warehouse space delivered in 2015 has registered a 30% decrease if compared to 2014 and totaled 716.7 thousand sq m.

The vacancy rate is circa 9.4% at year-end, which is higher than 1.1 million sq m in absolute terms.

The transaction volume exceeded 1.2 million sq m, which is 1.4 times higher than in 2014. Herewith, 30% of transactions were leased by grocery chains.

The asking rental rates for Class A properties were in the range of 3,500–4,500 rub./sq m/year throughout 2015.



**Viacheslav Kholopov**  
Partner, Director,  
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*"Industrial market of 2015 surprised all the participants by its results: the expected decline in demand turned into one of the highest rates of transaction volume in the history of the market both in Moscow region and Russia as a whole. The second best result was achieved in the market history in terms of disposed area.*

*In the context of a difficult economic situation, the sanctions pressure on the country and reduction of the purchasing power of the population, the development "drivers" of industrial market were the players of the largest retail industry, food retail chains, in particular. In the current situation, large companies occupy the niche vacated by players of small and medium businesses, as well as expanding existing capacities and are willing to lease new warehouse space. We also expect the main activity on the part of large players in 2016, but most likely the volume of transactions will not spring a "surprise" of 2015 and will decline by 30%.*

*The volume of new construction is also reduced. The implementation of new facilities is becoming the prerogative of a small number of federal developers who can work as efficiently as possible with the cost and quality of the product and have their own building and manufacturing capacities. And against the backdrop of a large amount of vacant space, the construction of a built-to-suit warehouse is the most appropriate solution for the developer."*

# WAREHOUSE MARKET REPORT MOSCOW

## Key indicators. Dynamics\*

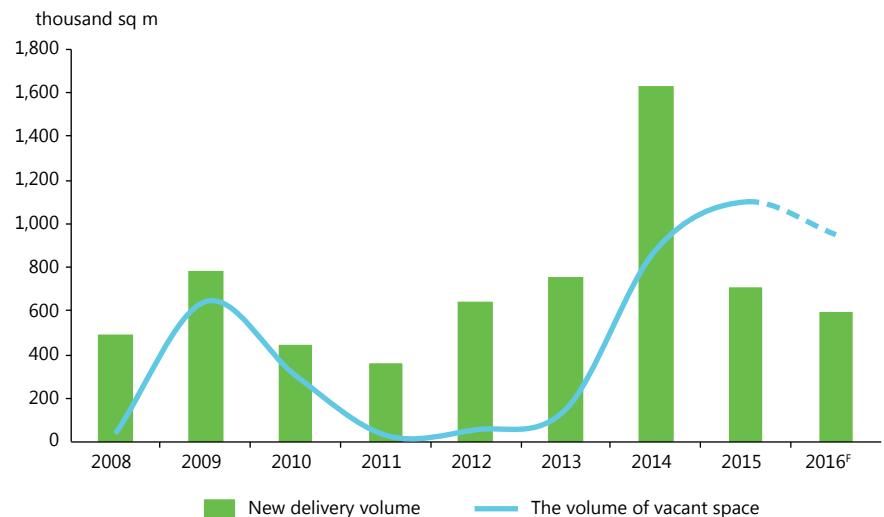
	Class A	Class B
Total quality supply volume, thousand sq m	11,957	
including, thousand sq m	10,006	1,951
New delivery in 2015, thousand sq m	716.7	
Lease and sale transactions volume in 2015, thousand sq m	1,231	
Vacancy rate, %	9.4 ▲	
Asking rental rates**, rub./sq m/year	3,500–4,500 ▼	–
Operational expenses, rub./sq m/year	1,000–1,300 ►	–

\* Compared to the end of Q4 2014

\*\* Triple net – excluding VAT, operating expenses and utility bills

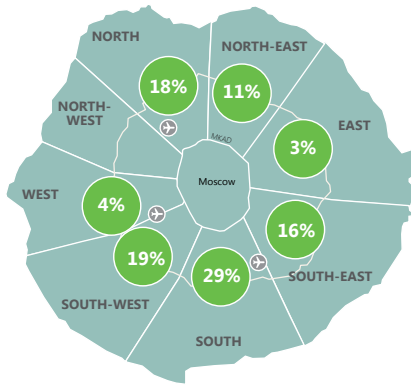
Source: Knight Frank Research, 2016

## Dynamics of new delivery and vacant space volume



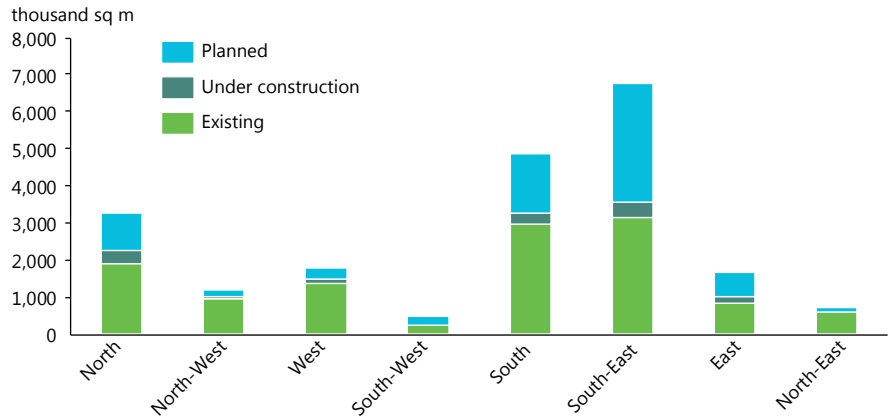
Source: Knight Frank Research, 2016

Delivery of the new warehouse premises in Moscow region in terms of direction, 2015



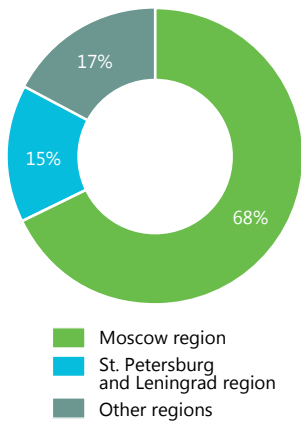
Source: Knight Frank Research, 2016

Distribution of the total warehouse space in Moscow region in terms of direction, 2015



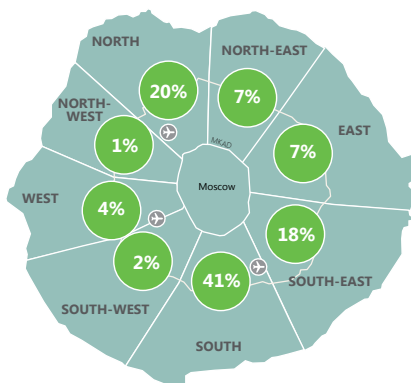
Source: Knight Frank Research, 2016

Lease and purchase transactions in the regional cities of Russia, 2015



Source: Knight Frank Research, 2016

Lease and purchase transactions in Moscow region in terms of directions, 2015



Source: Knight Frank Research, 2016

## Supply

716.7 thousand sq m of quality warehouse space were commissioned in 2015 in the Moscow region, which is 2 times less than in 2014. Currently, the total delivery volume of Class A and B warehouse space in the Moscow region is about 12 million sq m, where 10 million sq m belong to the Class A. It is worth noting that the warehouses constructed in 2015 were mainly the new projects, only 20% of them were phases of previously commissioned complexes.

The largest delivery volume is registered in the Southern direction – 29%, while 19% and 18%, respectively, refer to the South-Western and Northern directions.

Geographical distribution of Class A and B warehouse space remains unchanged for several years. The largest volume is concentrated in the South, South-East and North of the Moscow region. These directions have good transport accessibility, where there are two largest airports of the country, as well as a large selection of land plots for construction of warehouses. In addition, the highways located in these directions are of strategic importance: Simferopolskoe, Kashirskoye and Novoryazanskoye highways (South and South-East directions) connect the majority of the regions of Russia with the market of the capital. Leningradskoe and Dmitrovskoye highways (North direction) provide communication of the Moscow region with St. Petersburg port, where goods from a number of European and Asian countries are delivered. It should be noted that new storage facilities are currently under construction primarily in

these directions, and the main land plots are located here, where the construction of new warehouses is possible in the future.

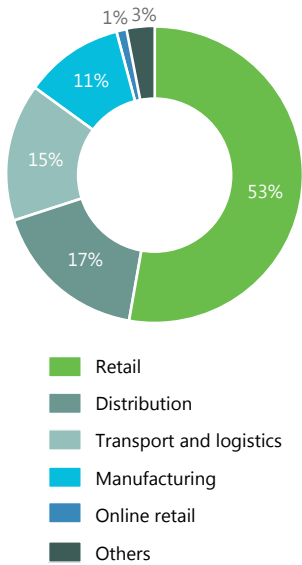
The vacancy rate grew up in H1 2015 due to the weak demand and the large volume of space delivered, increased by 1.2 p. p. to the beginning of July if compared with the end of 2014 and amounted to 10.4%. However, in the second half of the year, when the commissioning of new facilities reached minimum levels recorded in the history of the market and the demand, by contrast, demonstrated record levels, the vacancy rate fell to 9.4%. It is worth noting that throughout 2015 the total volume of vacant space was at a record level in the history of monitoring: about 1 million sq m of high-quality warehouse space is now vacant in the market of the Moscow region, a key market of the industrial real estate of our country.

## Demand

1,231 thousand sq m of high-quality industrial real estate were leased and purchased in the market of the Moscow region in 2015, which is 1.4 times higher than the results of 2014 and is comparable to the record levels of 2012 and 2013. The total volume of transactions in Russia amounted to 1.8 million sq m, the second highest result in the history of high-quality industrial real estate market. The share of the Moscow region was 68% of transactions, the share of St. Petersburg and Leningrad region – 15%, regional cities – 17%, highlighting the continuing centralization of logistics business around the market of the capital.

# WAREHOUSE MARKET REPORT. MOSCOW

## Lease and purchase transactions in Moscow region in terms of company profile, 2015



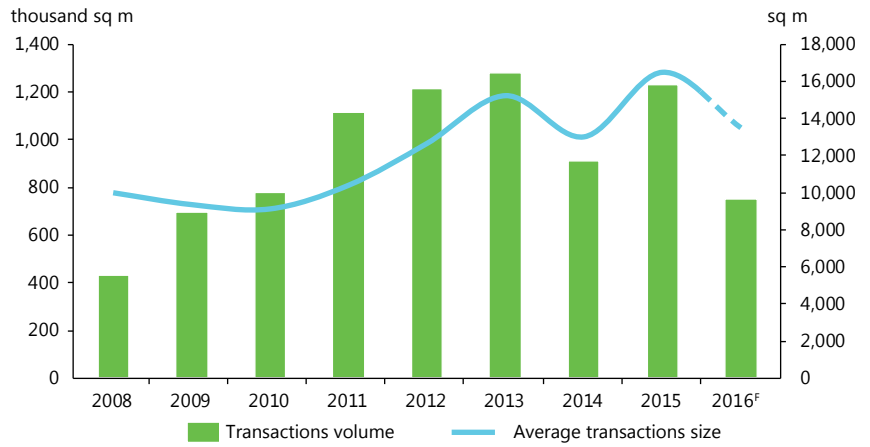
Source: Knight Frank Research, 2016

If we talk about the geographical distribution of transactions in the Moscow region, the largest volume is traditionally focused in the Southern direction – 41%, 20% and 18% of total transactions, respectively, were purchased and leased in the Northern and South-Eastern directions. It should also be stated that 70% of the total volume of delivered facilities of the Moscow region are concentrated in these directions.

The average transaction size amounted to 16.5 thousand sq m in the Moscow region at the end of 2015, which is 1.3 times higher than the same period last year. This confirms the idea that only large players are developing in the current conditions. And the vast majority of them are retailers: they form the bulk of demand for quality warehouse facilities. It is worth noting that 30% of closed transactions in the Moscow region refer to the disposed units of over 20 thousand sq m. Now, there is a sufficient number of large units (20 thousand sq m) in contrast to the crisis period of 2008–2009, so many companies grab an opportunity and lease high-quality warehouse facilities on attractive terms.

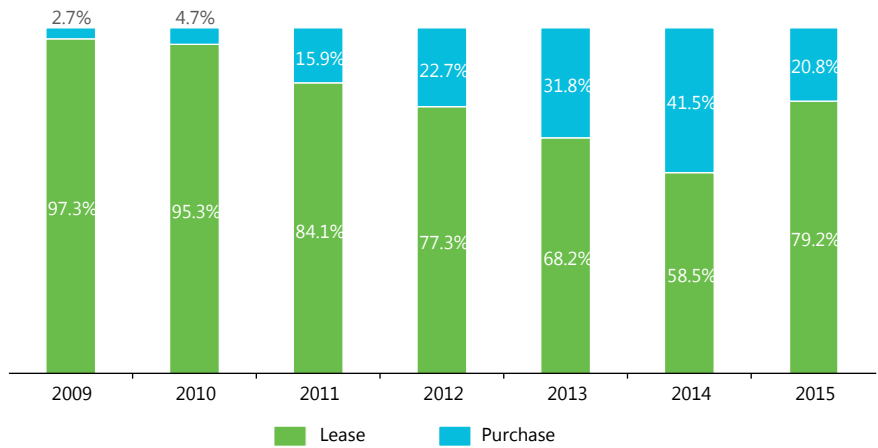
The share of purchase transactions displayed a decline for the first time since 2009: 21% in the total transaction volume if compared with 41% in 2014. The total volume of transactions decreased together with their number. Due to the high cost of debt financing the purchase of high-quality

## Dynamics of transactions volume and average transactions size



Source: Knight Frank Research, 2016

## Dynamics of transactions in Moscow region in terms of transactions type



Source: Knight Frank Research, 2016

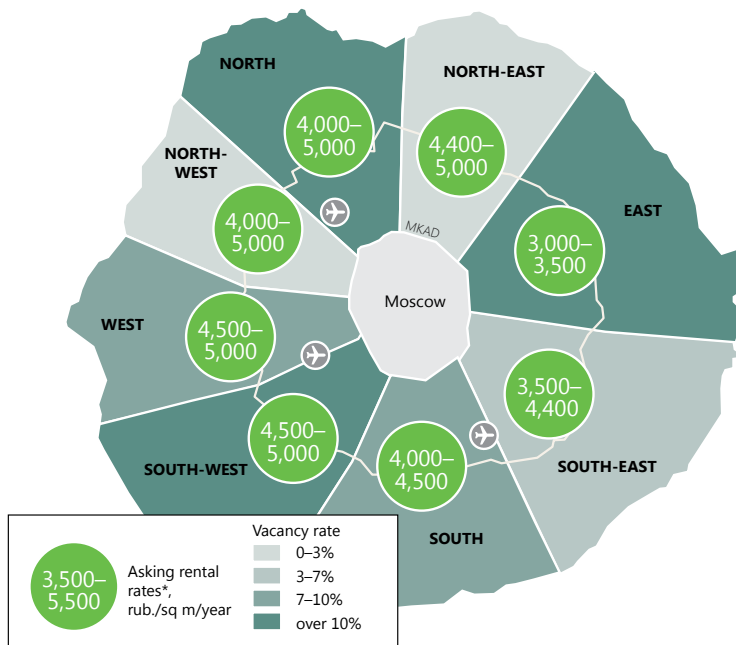
## Key deals, 2015

Company	Address	Total area, sq m
<b>Lease transactions</b>		
X5 Retail Group*	Logistics park Sof'ino	65,700
Dixy*	Warehouse complex A-terminal	54,300
Dochki-synochki	Logistics park Bykovo	42,200
<b>Purchase transactions</b>		
Adidas	Industrial park PNK-Chekhov 2	120,000
Dixy	Industrial park PNK-Severnoe Sheremet'evo 2	55,100

\* Knight Frank acted as a consultant of the deal

Source: Knight Frank Research, 2016

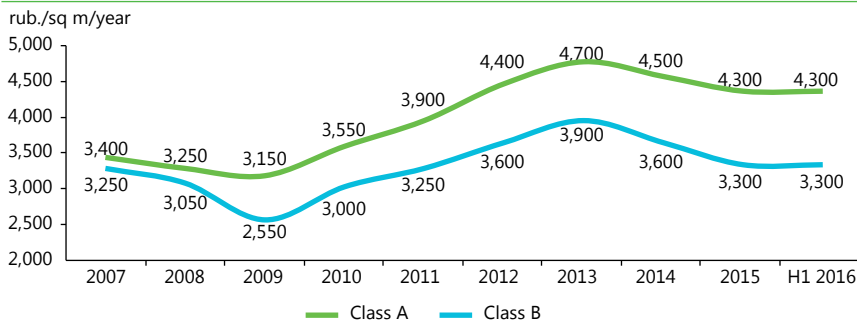
Vacant space and asking rental rates for Class A warehouse premises in terms of location



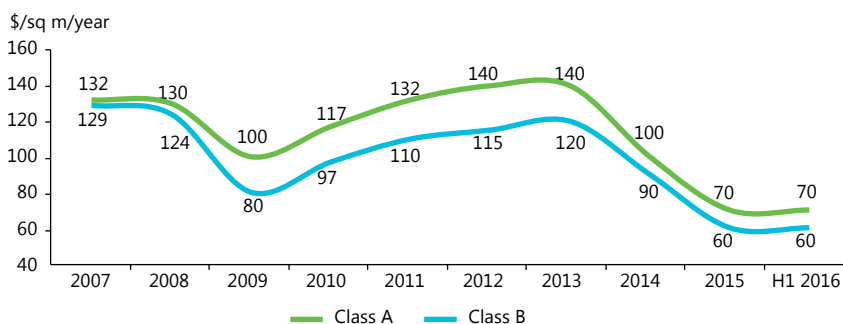
\* Triple net – excluding VAT, operating expenses and utility bills

Source: Knight Frank Research, 2016

Average asking rental rates\* dynamics for warehouse premises in Moscow region denominated in RUB



Average asking rental rates\* dynamics for warehouse premises in Moscow region denominated in USD



\* Triple net – excluding VAT, operating expenses and utility bills

Source: Knight Frank Research, 2016

warehouse space is mainly considered by the companies with their own funds, or foreign companies with the ability to attract financing on favorable terms. It is worth noting that the first purchase transactions of high-quality warehouse space in 2015 began to happen on the Moscow market only in the second half of the year.

The greatest leasing and purchasing activity was demonstrated by retail operators. They were responsible for more than half of all leased and purchased warehouse facilities at the end of the year. More than 30% of the total transaction volume were held by grocery chains. Players of this segment feel mostly confident in the current situation and announce plans to develop in Russia. The share of logistics operators and manufacturing companies has decreased compared to 2014 by 8.8 and 6.7 p. p., respectively.

### Commercial terms

The industrial real estate market quickly adapted to the new conditions in response of the significant currency fluctuations. The largest decrease of rental rates occurred since October 2014 and till March 2015. Due to high competition and growing volume of vacant space the landlords of warehouses renegotiated the lease terms in accordance with the new market conditions and reduced the asking rental rates. The rental rates did not change significantly in Q2–Q4 2015. At the end of 2015 the asking average rental rate for Class A warehouse space in the Moscow region was circa 4,300 rub./sq m/year (triple net – excluding VAT, operating expenses and utilities). Leases are mainly short term (about 3 years) at the rates that are denominated in the Russian currency. It should be noted that the industrial market is the only segment of the commercial real estate market, where all the vacant space is leased in the national currency.

As for the purchase of warehouse space, the asking price is an average of 40,000–45,000 rub./sq m (excluding VAT) at the end of 2015, which is almost unchanged compared to 2014.

In addition, the product of the new format was presented to the industrial market in 2015 in the context of changing needs of tenants and buyers: the first Class A projects proposing a division into small units appeared, mainly about 5,000 sq m to sell by parts that allowed to reduce the final price of such offer to the consumer.



### Forecast

The volume of new warehouse space delivered at the end of 2016 most likely will not exceed 600 thousand sq m. Developers will continue to be very cautious in terms of construction of new speculative complexes. The reason for this is the difficulty of access to debt financing and its high cost, as well as a very considerable amount of space available for lease. Most of the facilities planned for commissioning are constructed in accordance with built-to-suit scheme. Besides, we expect further "narrowing" of the market: the number of players will be reduced significantly, and mainly large chain developers will be engaged in the implementation of new facilities.

The volume of transactions could be reduced by 30% compared to 2015 and may reach circa 750 thousand sq m at the end of 2016. This is primarily due to a significant decline in consumer demand, as well as the extremely high volume of transactions market has experienced in

2015. As many companies have already leased and purchased a significant volume of warehouse premises in 2015, in the following year their further development will depend on the consumer demand performance.

The main "drivers" of demand will continue to be retail operators, namely, food chains. In addition, the activity of DIY-operators and the profile of "children's goods" is expected, as well as from pharmaceutical companies. Unfortunately, we do not experience a significant increase in the share of premises leased by internet operators; however, this format has a good potential for development in large cities because of the possibility to sell goods at lower prices.

The vacancy rate may be adjusted to 8–8.5% at the end of 2016 in the context of the slow growth of warehouse space and a moderate demand. However, the absolute values will remain high. As a consequence, it can be assumed that the cautious policy of developers regarding new speculative construction will continue in 2017. At the

same time warehouses that failed to timely find tenants for their vacant premises and which have significant credit load may change landlords.

The asking rental rates will remain at the same level in the absence of major macroeconomic indicators. Herewith, we miss the prerequisites for dollar rental rates return in the next couple of years.

The declared program of import substitution, especially in the period of sanctions restrictions, may be one of the development vectors of the market of quality warehouse and industrial real estate. Business partners ready to accommodate light manufacturing will be both industrial parks actively developing on the territory of the country, and also the developers of modern warehouses with additional engineering capacity on their land assets. Manufacturing companies can provide a stable occupancy of the leased premises, although it should be noted that the size of such premises is likely to be small.



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